



Springsted Incorporated  
380 Jackson Street, Suite 300  
Saint Paul, MN 55101-2887  
Tel: 651-223-3000  
Fax: 651-223-3002  
www.springsted.com

## MEMORANDUM

TO: Schane Rudlang, Port Authority Administrator

FROM: Mikaela Huot, Vice President/Consultant  
Tony Schertler, Senior Vice President/Consultant

CC: Terri Heaton, Senior Vice President

DATE: August 21, 2015

SUBJECT: Terratron Inc. Alpha B Project Risk Assessment Analysis

Springsted was retained by the Port Authority to provide a third-party review of the proposed financing plan for the anticipated commencement of the Alpha B phase of development, adjacent to the recently-completed Alpha A development (Towne Place Suites), by Terratron Inc. and an analysis of the financial capacity of the participating members of the development team undertaking the Alpha B development effort. The objective of the analysis is to assist the Port Authority and City Council with understanding the following:

- Verify the ability of the developer to meet the personal/corporate guarantee requirements as outlined in the agreement
- Identify the investor participants and the roles they will play in the development.
- Verify the debt and equity required for the project to proceed and the level of financial commitment in place at the time this report is completed.
- Level of public financing required that allows the project to proceed; and any implications the required public financing commitment may have on the existing development contracts.
- General background review of Terratron Inc.'s past business practices.

The purpose of this review is to analyze the financial capacity of the developer and respective development entities to verify the access to the financial resources necessary to provide the level of equity and debt financing necessary for the Alpha B phase to proceed, as well as have the requisite financial capacity to satisfy a guaranty to complete the construction of the restaurant and coffee shop portions of the development. In making this determination we

reviewed the project pro forma, confidential financial information, financial statements, and developer disclosures provided by the developer.

Our evaluation, and the validity thereof, is based solely upon the information received by the company and private parties and to the extent to which such information is accurate. Our evaluation also does not, and cannot, make a conclusive finding that factors such as an economic downturn or other unforeseen events won't diminish or even deplete the company's ability to sustain its operations.

Springsted performed a review of the principal of Terratron Inc., David Peters, in April of 2014 to determine if he had the financial capacity to satisfy a personal guaranty to complete the proposed project in light of the developers' desire to use the Alpha A property in a 1031 Improvement Exchange. The results of that review determined that Mr. David W. Peters' net worth was in excess of the amounts necessary to satisfy the equity and collateral requirements.

In conjunction with development of Alpha B, the review has been updated in August of 2015 based on financial information as of June 30, 2015 to verify that the developer, including David W. Peters (DWP), Terratron and Mercury Investments has the financial capacity and ability to meet the required guarantee related to the construction of Alpha B.

### **Project Overview**

The developer, Terratron Inc., has proposed a \$33.8 million development of the Alpha B site (located at the intersection of Lindau Lane and 24<sup>th</sup> Avenue) to include a 148-room five story hotel and approximately 26,000 leasable square feet of retail space which would include a restaurant (9,500 SF), coffee shop (2,000 SF), pharmacy or grocery (14,500 SF) along with a four level 326 stall structured parking facility (and additional 102 surface parking stalls). The structured parking facility is proposed to be available to the public as well as serving the hotel and retail developments. The hotel plus bar/lounge development needs approximately 196 stalls, the restaurant needs 150 stalls, coffee shop 14 stalls and the grocery/pharmacy an additional 76 stalls. According to the development proforma, construction of phase 1 is expected to all be included within one phase. The proposed Alpha B development is adjacent to the Alpha A development consisting of a 118 room extended stay TownPlace Suites hotel which opened in late July.

The agreement between the City/Port Authority and Terratron Inc. will require that the developer constructs the private improvements including the hotel, restaurant/coffee shop and pharmacy/grocery and the City/Port Authority will cause the construction of the parking ramp and plaza improvements.

### **Alpha B Guarantee**

The City/Port Authority will require a guarantee of the principal of Terratron, Inc., David W. Peters (and the other business elements Terratron and Mercury) to complete the restaurant/coffee shop as defined below:

1. DWP, Terratron, and Mercury Investments to guarantee restaurant and coffee closing by 10/31/16 or sooner.
  - a. Net worth of guarantors vetted sufficiently by City's independent consultant, Springsted.

2. Developer has until 10/31/16 to close on financing and start construction, if not Guarantors pay Port the parking ramp portion related to restaurant/coffee {38% = \$2.1M}
3. Developer can recover straight-line reduced amount of \$2.1M until 10/31/2018 if restaurant/coffee starts within that timeframe
  - a. Example: if restaurant starts construction on 10/31/2017, City will return \$1.05M to Developer, City keeps remaining \$1.05M
4. City has option {City's sole discretion} to buy back restaurant parcel after 10/31/2018 if no restaurant, at original purchase price
5. Port to reduce the guaranteed amount by the cost of the site improvements attributable to the restaurant/coffee parcel, but not to exceed \$500,000 – yielding a minimum cash guarantee of \$1.6M.

David W. Peters currently has nine outstanding personally guaranteed notes. The combined equity in the properties tied up in the personal guarantees is 50% greater than the outstanding balances on the loans. This difference is greater than the personal guarantee amount the City/Port is requiring. In addition, the current LTV ratio of the loans is significantly less than the maximum the developer could achieve, thus providing a financial resource, if necessary, for access to additional capital if the terms of the guarantee have not been met and the developer has to repay all or a portion of the parking ramp. Without delving into each of the outstanding personal guarantee notes, we are unable to determine for certain the City/Port's position of securing the guarantee, but assume it to be subordinate to the 9 existing loans and guarantees. However, due to the asset values of the Guarantors, there is more than sufficient excess capital to cover the guarantee amount.

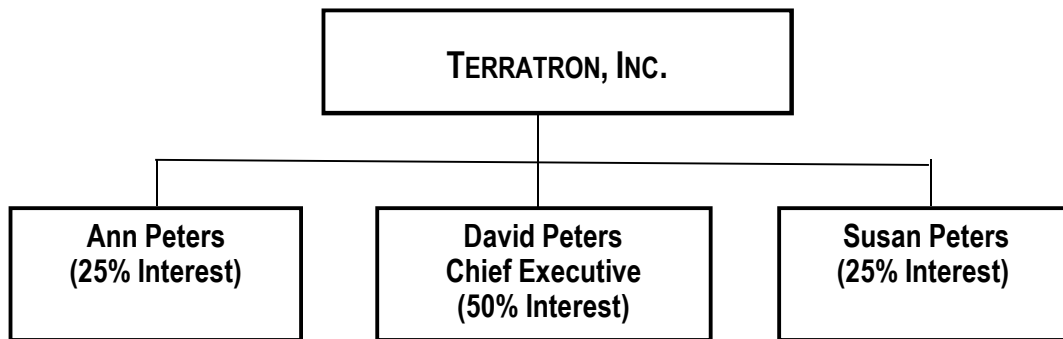
Springsted also reviewed David W. Peters current financial statement as of June 30, 2015. Based on current assets less liabilities, the net worth is in excess of the personal guarantee amount of \$2.1M. The assets are split between the development entities as further described below and are comprised of both property assets and cash. Mr. Peters has indicated that future funds based on ownership percentages could be accessed between a combination of existing cash and leveraging additional funds from the various assets (current LTV ratios are below the maximums) and would take that approach should the guarantee need to be realized.

### **Development Entity**

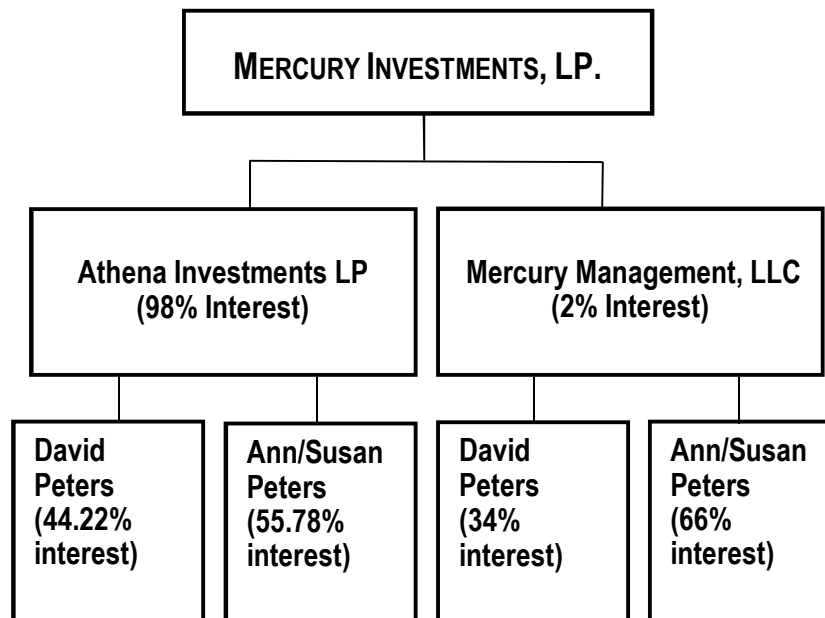
The development entity is comprised of Terratron Inc. and Mercury Investment Limited Partnership. Terratron Inc. is a family owned company (Chief Executive: David Peters) that had its genesis in the fast food industry. In 1996 Terratron Inc. shifted its operations and assets into commercial real estate, specifically hotel and retail development. Terratron Inc. has successfully developed retail and hotel projects in the Minnesota market including the Alpha A site in Bloomington and several developments in Mankato consisting of retail redevelopment and new hotel construction under the Marriott flag.

The flow chart on the following page illustrates the ownership structure for both Terratron Inc. (development and managing entity) and Mercury Investment Limited Partnership (ownership entity).

**Development and Managing Entity**



**Ownership Entity**



### **Sources and Uses (from August 2015)**

<b>Hotel</b>		<b>Retail: Restaurant and Grocery</b>		<b>Public Improvements</b>	
Ownership	Mercury Investment LP	Ownership	Mercury Investment LP	Ownership	Port Authority
# of Rooms	148	Leasable SF	26,000	# of Stalls (structured)	326
				Public Plaza	

<b>Sources of Funds</b>	
Equity (35%)	\$7,840,731
Debt (65%)	\$14,561,358
Public Funding	0
<b>Total</b>	<b>\$22,402,089</b>

<b>Sources of Funds</b>	
Equity (30%)	\$1,646,191
Debt (70%)	\$3,841,113
Public Funding	0
<b>Total</b>	<b>\$5,487,304</b>

<b>Sources of Funds</b>	
Equity	
Debt	
Public Funding	\$5,933,763
<b>Total</b>	

<b>Uses of Funds</b>	
Land Costs	\$1,230,000
Dev. Costs	\$21,172,089
<b>Total</b>	<b>\$22,402,089</b>

<b>Uses of Funds</b>	
Land Costs	\$1,110,898
Dev. Costs	\$4,376,406*
<b>Total</b>	<b>\$5,487,304</b>

<b>Uses of Funds</b>	
Parking	\$5,749,739
Public Plaza	\$184,024
<b>Total</b>	<b>\$5,933,763</b>

*For estimation purposes and based on initial information received from the developer, we are assuming the development would be financed with approximately 30% equity and 70% debt. These ratios may change to equity of 35% and debt of 65%, subject to tenant and final financing approval as the project proceeds*

### **Proposed Financing**

The developer is proposing to finance the private improvements (hotel, restaurant/coffee shop and grocery/pharmacy) with a combination of debt and equity. Construction of the hotel would commence first and the developer is still working to secure a restaurant/coffee shop and grocery/pharmacy tenant to fill the retail portions of the project and anticipates the financing terms may be similar to that of the hotel; however the debt and equity percentages could be as high as 70%/30%, respectively, subject to the secured tenant(s). The developer is finalizing the financing to commence construction of the hotel and has indicated approximately 65% of the construction costs would be financed with debt and the remaining 35% financed by equity. The developer has assumed approximately 70% of the retail portion would be financed by debt and the remaining 30% financed with equity but this financing structure could ultimately be similar to the hotel financing, subject to timing and secured tenant(s).

The developer has indicated the project would commence construction in fall of 2015 with an approximate 13 month construction period. The Port Authority has indicated a desire for increased density in the development area and the developer has represented that public assistance for financing of the parking structure as a means of increasing

density in the development is necessary. The developer's anticipated lender has indicated some initial concerns regarding the parking ratio with the hotel, as well as the developer owning the ramp. The estimated cost of the parking ramp for 326 spaces has been estimated to be \$5.75 million at an assumed cost of \$17,637/stall. The City/Port Authority would finance the public improvements (parking ramp) with construction occurring simultaneously with the private improvements.

## **Conclusion**

The developer has provided the necessary information to determine it has the financial capacity to meet the guarantee requirements as outlined by City/Port Authority staff. The net worth of David W. Peters is in excess of the anticipated guarantee amount. In addition, there are currently 9 existing outstanding personal guarantee notes. The developer's equity less outstanding balance on the loans is greater than the guarantee amount as required by the City/Port Authority, thus leaving sufficient capital available to meet the guarantee requirements of the City/Port Authority. In addition, the developer has not maximized loan to value ratios on the assets and has indicated it could leverage additional funds through loans on the current assets, if necessary.

The entities affiliated with the development entity Terratron Inc. are engaged in commercial/ rental real estate and operations related to the management of that type of business. A majority of their assets are real estate related. Their abilities to generate financing, through a combination of debt and equity should be feasible based on the financial conditions we examined. We note, however, that the information we were provided represents a snapshot in time, and therefore does not guarantee the available cash will be there upon closing. We recommend the Port Authority proceed with financing of the public improvements at the time when the developer has secured financing for the project and is able to commence construction.

Thank you for the opportunity to be of assistance to the City and Port Authority. Please contact us at 651.223.3036 or [mhuot@springsted.com](mailto:mhuot@springsted.com) with any questions or comments.